

The Aviation Sector – Opportunities in Indonesia

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Summary

Indonesia is an archipelagic nation that consists of more than 17,000 islands spread over 113,700 square miles; the need for connectivity is becoming more and more important, as the country attempts to link resources, peoples, and industries to further protect its economic security and grow its GDP. Connectivity cannot be accomplished by road or rail, due to distances; or conducted by ship or ferry, due to time. The immediate and logical answer is: Aviation.

With the realization that the aviation sector is surging, now is the time to work across international borders and invest in Indonesia's future.

Background

The Indonesian aviation sector is just as diverse as the country itself. The rules and regulations for safety, security and service of the aviation sector are administered by the Directorate General of Civil Aviation (DGCA). The sector, itself, contains over 148 airports with an ICAO code. Twenty-five airports are managed by two separate state owned enterprises (SOEs), while the DGCA has oversight of the remaining airfields. The SOEs not only manage the services of the airports; but, also provide joint navigation support and Air Traffic Control for all Indonesian air space. The SOEs are:

- Angkasa Pura I (AP I) manages the services of 13 airports within the central and eastern areas of Indonesia. AP I's biggest and busiest hubs are: Ngurah Rai International Airport in Bali and Juanda International Airport in Surabaya.
- Angkasa Pura II (AP II) manages the services of 12 airports within the western areas of Indonesia. AP II is responsible for what some consider to-be the "flag-ship" airport of Indonesia, Jakarta Soekarno-Hatta International Airport.

Airline Growth

Indonesia's airlines have been busy hustling, primarily for dominance of the domestic market share. Progress in improving flight safety operations has allowed Garuda Indonesia, Batavia Air and AirAsia Indonesia to be removed from the EU "blacklist". These airlines are now looking to stretch their wings on more international routes.

The international and domestic route developments are highlighted by Lion Air's recent purchase of 230 Boeing 737s and five Boeing 787-8s, and Garuda Indonesia's current orders for 10 Boeing 777-300ER and five 737-800. Garuda Indonesia is preparing to increase its fleet from less than 100 to more than 150 by 2015.

Additionally, Merpati Nusantara Airlines, the fourth largest domestic Indonesian carrier, has plans to purchase eleven new medium range aircraft and Batavia Air, another low-fare carrier, is developing a plan to purchase and lease additional medium range aircraft for both domestic and international use.

Market Data

Indonesia has seen very stable national economic growth, from GDP of \$364.4 B (USD) in 2006, to GDP of \$846.7 B (USD) in 2011: a 132% increase over the last 6 years. Also, during the last 6 years, Indonesia has enjoyed a 5.9% GDP annual growth average with GDP growth from 2011 to 2012 at 6.3%. AP II posted a net profit of \$122.6 M (USD) after taxes in 2010, highlighting a 5-year growth pattern of 145%.

2006-2010						
Net Profits After Taxes - \$M USD						
	2006	2007	2008	2009	2010	Growth %
AP I	31.1	35.6	57.5	58.7	48.3	55%
AP II	45.9	53.7	73.1	94.7	112.6	145%

Source: 2010 Annual Reports from Angkasa Pura I and Angkasa Pura II.

This growth has positively influenced the aviation industry and increased the burden on infrastructure in Indonesia. As a result of GDP growth and a rising middle class, the country has witnessed a substantial boost in aircraft movements, passenger activities, and cargo loads. The following tables highlight how air traffic movements are growing at a very steady rate within both the AP I and AP II areas of responsibility. Aircraft movements have grown by 39% for AP I and 18% for AP II, while passenger loads have grown by 56% and 48%, and tonnage moved has grown by 40% and 35%, respectively.

2006-2010						
Realization of Air Traffic Movements - AP I						
	2006	2007	2008	2009	2010	Growth %
Aircraft (a/c)						
Domestic	318,575	325,026	333,723	350,357	435,645	37%
International	33,284	33,082	40,584	49,024	52,163	57%
Total	351,859	358,108	374,307	399,381	487,808	39%
Passenger (pax)						
Domestic	27,437,268	28,851,527	36,403,511	34,861,877	41,609,909	52%
International	4,171,096	5,000,826	30,497,034	6,820,120	7,627,528	83%
Total	31,608,364	33,852,353	5,906,477	41,681,997	49,237,437	56%
Cargo (ton)						
Domestic	160,102	171,328	181,212	190,838	222,530	39%
International	47,491	50,941	57,981	54,002	67,148	41%
Total	207,593	222,269	239,193	244,840	289,678	40%

Source: 2008 and 2010 Annual Report from Angkasa Pura I.

2006-2010 Realization of Air Traffic Movements - AP II						
	2006	2007	2008	2009	2010	Growth %
Aircraft (a/c)						
Domestic	358,363	372,252	364,479	379,197	412,382	15%
International	61,722	60,315	68,318	71,827	84,970	38%
Total	420,085	432,567	432,797	451,024	497,352	18%
Passenger (pax)						
Domestic	34,869,414	34,866,396	37,531,327	43,172,647	51,006,524	46%
International	7,514,958	8,288,848	8,749,918	9,357,373	11,599,931	54%
Total	42,384,372	43,155,244	46,281,245	52,530,020	62,606,455	48%
Cargo (ton)						
Domestic	247,629	284,529	316,528	300,373	329,422	33%
International	199,539	267,083	255,581	223,826	272,999	37%
Total	447,168	551,612	572,109	524,199	602,421	35%

Source: 2010 Annual Report from Angkasa Pura II.

Market Demand

Aviation infrastructure development planning has identified the need for a reliable, highly capable, and safe network. This network must be able to support the dynamic development of passenger mobility and the transportation of goods and services. Overall, it is critical that it supports the development and improvements of both national and international connectivity.

Indonesia's national connectivity is part of a global economic relationship. Therefore, the strengthening of national connectivity has to consider the association with regional and global economic growth centers in order to enhance national competitiveness and optimize advantages of Indonesia's regional and global connections.

Currently, the Government of Indonesia (GOI) is seeking different investment and funding methods for infrastructure and support projects that will improve safety and increase throughput.

Public Private Partnerships Plan

GOI provides an annual book titled, *Public Private Partnerships - Infrastructure Projects Plan in Indonesia* to advertise Public Private Partnerships (PPP). The 2011 release contains two categories of PPP projects for the Air Transportation Sector: ready-for-offer projects and potential projects. The ready-for-offer project totals \$213.61M USD while the potential projects total \$1,972.8M USD.

Ready-for-Offer Public Private Partnership Projects				
Project	\$M USD	Start	End	Location
South Banten Airport, Pandeglang	213.61	2011	2015	Banten, Greater JKT area

Source: 2011 Public Private Partnerships - Infrastructure Projects Plan in Indonesia.

Potential Public Private Partnership Projects				
Project	\$M USD	Start	End	Location
New Kertajati International Airport	800	2011	2015	Bandung, West Java
New Kulonprogo International Airport	500	2011	2016	Yogyakarta, Central Java
Development of Singkawang Airport	42	2011	2017	West Kalimantan
Expansion of Dewandaru Airport Karimun Jawa	10	2012	2014	Kemujan Island, Central Java
Development of Tjilik Riwut Airport	11.3	2012	2015	Central Kalimantan
Development of New Bali Airport	510	2012	2016	Bali
Development of New Samarinda Airport	99.5	2012	2016	Samarinda, East Kalimantan

Source: 2011 Public Private Partnerships - Infrastructure Projects Plan in Indonesia.

Blue Book

In addition to the annual PPP book, the GOI will receive, review, and approve projects that are acceptable for external loans and/or external grants. These projects are released every five years in the *List of Medium-Term Planned External Loans and Grants*, better known as the “Blue Book.” The current “Blue Book” was released in 2011 and is dated 2011-2014. The “Blue Book” is a living document and it is revised regularly to account for any adjustments or cancellations of the originally submitted and approved projects. The current amount sought for external loans in the aviation sector is \$273.7M USD for 5 separate projects while the total for external grants is \$22.5M USD for 4 projects.

Blue Book 2011-2014, 2d Book External Loans	
Project	\$M USD
Airport Development for Disaster Measure & Border Region Development	50
Enhancement of Safety for Air Link to Eastern Indonesia	42
New Comm, Nav, Surveillance, & Air Traffic Mgmt (CNS/ATM) System	100
Procurement of Fire Fighting Equipment & Airport Rescue	31.7
Development of Airport in Papua	50

Source: Blue Book: 2011-214, 2d Book.

Blue Book 2011-2014, 3d Book External Grants	
Project	\$M USD
Procurement & Installation of Security Equipment	14.4
Enhancement of Inspector Competencies in DGCA	5
Technical Assistance on Aviation Security	1.1
Master Plan Study on Multiple Airport Development for Jakarta Metro Area	2

Source: Blue Book: 2011-214, 3d Book.

MP3EI

Another formal planning document that the GOI recently introduced, in 2011, was the Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI). MP3EI was implemented with the concept to cut red-tape and with the intent to drive the

realization of high, balanced, fair and sustainable economic growth. It is intended to complement, not replace, the Mid-Term Development Plan and it notes that strengthening national connectivity locally and internationally is a main goal. From an investment standpoint, MP3EI projects are sorted by proposed investment stakeholders.

MP3EI - 2011 Stakeholder Investment Projects					
Stakeholder	Project	\$T IDR	Start	End	Location
Govt	Kertajati Airport development	8,299	2007	2020	West Java
Govt	Balikpapan International Airport expansion	713	2008	2012	East Kalimantan
Govt	Acceleration of new Samarinda Airport	1,200	2011	2015	East Kalimantan
SOE	Private development at Kualanamu Airport	1,600	2007	2012	North Sumatra
SOE	Terminal development at Sultan Thaha Airport	107	2011	2012	Jambi
SOE	Terminal development at Raja Haji Fisabilillah Airport	105	2011	2012	Riau Islands
SOE	Ngurah Rai Airport expansion	2,050	2011	2013	Denpasar, Bali
SOE	Soekarno-Hatta Airport expansion	3,640	2011	2013	Banten, Tangerang
SOE	Balikpapan Airport	1,600	2011	2014	East Kalimantan
SOE	Djuanda Airport Improvement	530	2014		Surabaya, East Java
Govt & SOE	Morotai Airport rehabilitation including Runway extension	150	2011	2014	West Nusa Tenggara
Govt & SOE	Banten Selatan Airport	2,000	2011	2015	Banten
Govt & SOE	International Airport development in Yogyakarta Province	3,700	2013	2018	Yogyakarta

Source: MP3EI - 2011, *Angkasa Pura I: Annual Report 2010*, and *Angkasa Pura II: Annual Report 2010*.

Note: Investment Projects highlighted in “green” are currently being executed.

Aviation Sector Stakeholders

It is generally acknowledged that Indonesia will need an increase in pilot capacity, aircraft, and engineers as demand grows. However, as noted above, vetted project proposals do not cover any of these requirements. Aviation sector experts and players have noted that the following are significant needs and requirements for future success in Indonesia:

- **Garuda Pilots Association (APG)**
 - o Trained pilots
 - APG projects needs of more than 1,500 pilots to support Garuda’s growing routes
 - Local training and flying schools cannot support training pipeline requirements
- **Indonesian Airline Industry Leaders (Batavia, Garuda, Lion, Merpati)**
 - o Fleet improvements and new aircraft (Boeing 737 vs. AirBus 320)
 - o Trained pilots and engineers to support growing fleets and routes
 - o Infrastructure and safety upgrades:
 - Improved radar system with an upgrade to ADS-B technology
 - Improved (controller/aircraft) communication systems and air traffic control infrastructure
 - Full Flight Simulator upgrades
 - Additional ramp space at Soekarno-Hatta
- **Indonesia Air Traffic Controllers Association (IATCA)**
 - o Trained controllers at all levels (tower, approach, and area control)
 - o Improved radar system with an upgrade to ADS-B technology
 - o Improved (controller/aircraft) communication systems with an upgrade to both ADS-C/CPDLC equipment

- **Aero Flyer Institute (AFI)**
 - o Additional Cessna aircraft and simulator capacity

Market Entry

Key factors to successfully investing in the Indonesian aviation sector are: time, flexibility, and patience, while noting that the Government of Indonesia tends to look more favorably on companies or consortia that provide turn-key, end-to-end solutions that including financing. Overall, there is huge potential for aviation infrastructure investment.

Key Contacts / Resources

U.S. Embassy Jakarta Economic Section	businessindonesia@state.gov
AMCHAM Indonesia	http://www.amcham.or.id/
Directorate General of Civil Aviation (DGCA)	http://hubud.dephub.go.id/?en
Angkasa Pura I (AP I)	http://www.angkasapura1.co.id/
Angkasa Pura II (AP II)	http://www.angkasapura2.co.id/
Indonesia Air Traffic Controllers Association (IATCA)	http://www.iatca.or.id/
Garuda Pilots Association (APG)	http://www.apg.or.id/
Aero Flyer Institute (AFI)	http://www.aeroflyerinstitute.co.id/
2011 PPP Book	www.irsdp.org/ppp_book/PPP%20Book%202011.pdf
2011 Blue Book (1-3)	http://bappenas.go.id/node/97/3025/blue-book-tahun-2011---2014/
2011 MP3EI	http://www.ekon.go.id/media/filemanager/2011/05/27/p/d/pdf_mp3ei.pdf

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